NAPEO’s Pulse Survey Shows PEOs Regained Some Footing in Q3

Revenue growth was a mixed bag for PEOs during the third quarter of 2020. 40% achieved some revenue growth (vs. same quarter of 2019), and 40% saw their revenue fall. Note: prior to the pandemic, roughly 75% experienced growth during any given quarter, and usually less than 10% saw decreases.

- Revenue growth improved overall during Q3, though it remains much lower than any pre-pandemic quarter.
- Fewer PEOs reported a significant revenue decrease during the quarter.

Profits are taking the biggest hit.

- 40% of PEOs reported decreases to their bottom-line profits.
- 46% saw a decrease in gross profit, the biggest drop reported in NAPEO Pulse history.
- Gross profit was the most negatively affected metric in Q3 (only slightly rebounding from Q2), after experiencing years of gradual increases before 2020.

Clients continue to reduce headcounts in Q3.

- Although Q2 was more drastic, clients continued to reduce employees during Q3, with WSEs per client dropping for 36% of PEOs.
- PEOs experienced a very modest overall increase in number of clients during Q3.
- While 20% of PEOs reported their clients reduced employee wages (which was unheard of prior to the pandemic), 35% saw wages increase.

Most PEOs held steady with their internal headcount.

- 59% of PEOs maintained their number of internal employees.
- 18% reduced their employee numbers (2.3% reported a significant decrease).
- 23% reported a mild increase in staff size.

PEOs are confident better days are ahead.

- 86% of PEOs expect growth over the next 12 months, a number very close to expectations of pre-pandemic quarters that typically range between 80 and 90%.
- Only 2% expect WSEs to decrease over the next year, the smallest percentage reported over the past 4 consecutive quarters.
- PEOs of all sizes are optimistic about future growth. 80%+ of all WSE size groupings are expecting an increase over the next 12 months.
- PEOs’ Expected Growth Index* for Q3 (at 4.09) exceeded recent pre-pandemic levels. The current level of confidence in future growth has not been matched since Q2 of 2019.

NAPEO’s Pulse Survey was developed by the Accounting Practices Committee in 2017 and is conducted quarterly among members to take the pulse of the PEO industry through a series of easy-to-answer questions. For more information about NAPEO’s Pulse Survey, please contact Melissa Viscovich at mviscovich@napeo.org or (703) 739-8161.

* Expected Growth Index is based on the average score of a 5-point scale where 1 = Significant Decrease / 3 = No Change / 5 = Significant Increase.